

Message Text

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DRAFTED BY EUR/CAN:DAKRUSE:RM

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DOD:MR. JORDAN

TREAS:MR. ALBRECHT

S/S:O D. MACK

PM:TSTEARNS (INFO)

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P 280150Z PEB 76

FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA PRIORITY

C O N F I D E N T I A L STATE 048462

EXDIS

E.O. 11652: GDS

TAGS: MILN, EAIR, CA

SUBJECT: US-CANADIAN MEETING ON LRPA

REF: STATE 40634

1. CANADIAN TEAM LED BY E.P. BLACK, ASSISTANT DEPUTY MINISTER FOR NATIONAL DEFENSE, AND COMPOSED OF HIGH LEVEL OFFICIALS FROM DEPARTMENTS OF EXTAFF, FINANCE, ITC, AND SUPPLY AND SERVICES AS WELL AS LRPA PROJECT OFFICE AND CANADIAN EMBASSY MET WITH US OFFICIALS FEBRUARY 24 TO DISCUSS CANADIAN CONCERNS ABOUT PENDING PURCHASE OF 18 LONG RANGE PATROL AIRCRAFT P-3'S FROM LOCKHEED. MEETING WAS HOSTED IN PENTAGON BY ACTING ASD/ISA JORDAN WITH SENIOR DOD AS WELL AS STATE AND TREASURY OFFICIALS.

2. IN PRESENTING GOC CONCERNS, AMBASSADOR WARREN LED OFF BY EMPHASIZING THAT GOC WANTS TO BUY LOCKHEED PLANES BUT REQUIRES SOME CREDIBLE GUARANTEE FROM USG THAT CANADA WILL
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EITHER GET THE PLANES OR ITS MONEY BACK IF LOCKHEED FAILS TO PERFORM. FOLLOWING UP, BLACK NOTED THAT CANADIAN TEAM WILL BE REPORTING TO MINISTERS WHO MUST EVENTUALLY JUSTIFY ANY DECISION TO BUY FROM LOCKHEED TO A PARLIAMENT AND PUBLIC WHICH HAVE SERIOUS DOUBTS AS TO THE FINANCIAL ABILITY AND STABILITY OF LOCKHEED. THESE DOUBTS HAVE ARISEN SINCE

THE PUBLICLY-ANNOUNCED DECISION BY THE CANADIAN GOVERNMENT IN LATE NOVEMBER TO PURCHASE 18 LRPAS FROM LOCKHEED AND RELATE TO REVELATIONS OF IMPROPER PAYMENTS BY LOCKHEED TO OTHER PROSPECTIVE FOREIGN BUYERS WHICH IN TURN HAVE THREATENED LOCKHEED SALES PROSPECTS ELSEWHERE ADDING TO PRE-EXISTING FINANCIAL PROBLEMS. BLACK STRESSED THAT LOCKHEED SITUATION HAD BECOME AN EXTRAORDINARY ONE AND, FOR THAT REASON, GOC WAS ASKING FOR SPECIAL US ATTENTION INCLUDING CONSIDERATION OF SOMETHING WHICH COULD CONSTITUTE A USG GUARANTEE PERHAPS THROUGH FMS CHANNELS.

3. IN RESPONSE, UNDER SECRETARY OF NAVY POTTER OUTLINED PRESENT SITUATION REGARDING US PLANS FOR P-3S WHICH CALLS FOR ABOUT 96 PLANES TO BE BUILT BETWEEN NOW AND FY1981-82. THE NAVY EXPECTS TO GET THESE PLANES AND POTTER SUGGESTED THAT IT WOULD BE POSSIBLE TO DOVETAIL PRODUCTION OF CANADIAN PLANES INTO SCHEDULE OF US ORDERS TO HELP ASSURE THAT GOC PLANES WERE BUILT. HE NOTED THAT USING FMS WOULD BE COMPLICATED FOR US BECAUSE ELECTRONICS ORDERED BY CANADIANS NOT TESTED AND APPROVED BY USG AS YET. HOWEVER, HE EMPHASIZED THAT, FROM DEFENSE STANDPOINT, US CONSIDERED CANADIAN PURCHASE VERY IMPORTANT AND THEREFORE FMS SHOULD NOT BE EXCLUDED.

4. SPEAKING IN TREASURY'S ROLE ON EMERGENCY LOAN GUARANTEE BOARD, GENERAL COUNSEL ALBRECHT REFERRED TO RECENT TESTIMONY OF SECRETARY SIMON INDICATING CONFIDENCE THAT LOCKHEED WOULD BE ABLE TO PAY BACK PRESENT USG GUARANTEED LOANS OF \$195 MILLION BY 1978 AND THAT LOCKHEED WOULD BE ABLE TO RETURN TO THE CAPITAL MARKETS THEN. FROM LOCKHEED'S STANDPOINT, A FAVORABLE GOC DECISION TO BUY THE 18 LRPAS WOULD IN ITSELF CONTRIBUTE TO THE CREDIBILITY AND RELIABILITY OF THE FIRM. THE BIGGEST CONCERN ABOUT LOCKHEED'S FUTURE IS THE POSSIBLE IMPACT ON THE COMPANY'S CONFIDENTIAL

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BUSINESS RESULTING FROM RECENT DISCLOSURES OF DETAILS CONCERNING FOREIGN PAYMENTS. THAT IMPACT CANNOT BE ASSESSED AT THIS TIME.

5. MR. JORDAN NOTED THAT ONLY CONGRESS COULD GIVE THE KIND OF IRON-CLAD GUARANTEE GOC DESIRES AND THAT WOULD NOT APPEAR TO BE A POSSIBILITY. IN RESPONSE TO WARREN'S RE-

QUEST TO CONSIDER "WHAT IS MAXIMUM US CAN DO TO HELP GOC,"

DOD OFFICIALS NOTED THAT US COULD, THROUGH FMS ARRANGEMENTS, PROCURE THE P-3 AIRCRAFT FOR THE CANADIANS ON THE SAME BASIS AND WITH SAME ASSURANCE AS WHEN WE PROCURE P-3 FOR OUR OWN REQUIREMENTS BUT THAT ALL COSTS WOULD HAVE TO BE BORNE BY GOC AND THERE COULD BE NO WORK DONE UNTIL "MONEY WAS IN THE BANK." DOD OFFICIALS INDICATED THAT FMS COULD BE ACCOMPLISHED BUT THAT TIMING AND MODALITIES COULD ONLY BE DETERMINED UPON DETAILED EXAMINATION OF THE PRESENT GOC-LOCKHEED CONTRACT.

6. ON QUESTION OF OFFSETS, CANADIAN OFFICIALS SAID THAT GOC WISHES TO MAINTAIN OFFSET PACKAGE WORKED OUT WITH LOCKHEED. DOD OFFICIALS NOTED THAT ALTHOUGH US DOES NOT, IN PRINCIPLE, LIKE OFFSETS WE RECOGNIZE THAT WE HAVE TO LIVE WITH THEM. UNTIL US SEES THE CONTRACT THERE IS NO WAY OF KNOWING HOW OFFSET ARRANGEMENTS MIGHT BE AFFECTED, BUT IN ANY EVENT, USG COULD NOT GUARANTEE A LEVEL OF OFFSET OR PAY PENALTIES FOR NON-PERFORMANCE.

7. US OFFICIALS NOTED THAT, IF EVENTUALLY IT IS POSSIBLE TO GO THE FMS ROUTE AND IN LIGHT OF ASSURANCES THAT CANADIAN PLANES WOULD BE RUN IN PRODUCTION LINE ALONG WITH US PLANES, GOC SHOULD BE IN BETTER POSITION TO OBTAIN NECESSARY BRIDGE FINANCING WHICH IT HAS BEEN CONCERNED ABOUT (SEE OTTAWA 618 AND 693).

8. IN CONCLUSION, CANADIAN SIDE GAVE COPY OF ITS LOCKHEED CONTRACT TO DOD OFFICIALS AND US SIDE AGREED TO DO QUICK EVALUATION SO AS TO GIVE GOC EARLY JUDGMENT AS TO FEASIBILITY AND TIME FRAME OF CONVERTING TO SOME FORM OF CONFIDENTIAL

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FMS. BOTH SIDES AGREED TO MAINTAIN PUBLIC SILENCE ON BILATERAL DISCUSSIONS. HOWEVER, IF QUESTIONS RAISED IT WAS AGREED THAT LINE TO BE TAKEN WAS THAT "IN VIEW OF CANADIAN DECISION ANNOUNCED IN NOVEMBER TO BUY 18 LOCKHEED LRPAS, US AND CANADIAN OFFICIALS HAVE HAD SUBSEQUENT DISCUSSIONS ON THE MATTER. INGERSOLL

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